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DIRECTORATE OF INTELLIGENCE

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US-China Textile Negotiations: The Fifth Round [redacted] 25X1

We believe the Chinese are not yet prepared to make major concessions to gain an agreement in the upcoming fifth round of textile negotiations. According to textile negotiator Li Dengshan, the Chinese want successful talks, but are willing to compromise only if encouraged by significant US concessions. Declining oil prices may be putting additional pressure on China to reach more favorable terms for its textile exports. [redacted] 25X1

US and Chinese negotiators will meet in Beijing beginning 11 March for a fifth round of talks to renew the bilateral textile trade agreement. Preliminary meetings have created an atmosphere of uncertainty. It is unclear exactly how the session was scheduled, but China mistakenly interpreted the US team's pending arrival as an indication of new flexibility. Li, apparently concerned that neither side is yet prepared to make necessary further concessions, told US Embassy officers that that a fifth round could be "unfortunate" unless both sides are willing to compromise. [redacted] 25X1

The Chinese Position

The Chinese position has not changed since the January round of talks. Li acknowledged that China might be willing to show additional flexibility, but the United States must first make concessions. Beijing's principal areas of concern are:

- o The number of categories the United States wants to include in the quota system. The United States wants 32 categories covered, China is willing to consider no more than 28.

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This memorandum was prepared by [redacted] *the China Division of the Office of East Asian Analysis.* [redacted] 25X1

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- The base levels from which export growth rates will be calculated. China wants base levels and growth rates considerably higher than the United States.

- Reduction in the volume of printcloth exports requested by the United States in order to better regulate growth in that category. Chinese printcloth exports jumped 65 percent in 1981, but quotas cut 1982 sales back to nearly the 1980 level. [redacted] 25X1

Pressures on China

The recent drop in oil prices may be putting additional pressure on China to try to reach highly favorable terms for its textile exports, which could take on added significance after 1983 if oil prices do not recover. For each dollar-per-barrel drop in the world oil price, China will lose about $100 million 25X1 in annual revenues. This is not an immediate problem because China's foreign exchange position is strong and current oil export contracts extend beyond mid-year.* At current export levels, a 2 percent increase in textile sales would be required to offset a $100 million reduction in earnings from oil exports. [redacted] 25X1

The ambitious import program contained in China's recently published Five Year Plan (1981-85) underscores the importance of textile and apparel sales. Exports of these goods account for nearly 25 percent of exports. 25X1 In order to finance import levels projected for the Sixth Five-Year Plan, Beijing must expand total exports to about $27 billion by 1985, a 2 percent growth in 1983 and an implied 11 percent per year for the following two years. Beijing hopes that textiles and apparel will account for a large share of that growth and must negotiate textile trade agreements that will accommodate that goal. The negotiations with the United States will set a precedent for future negotiations with the EC and perhaps for renegotiation of the Canadian agreement, thereby taking on added significance. [redacted] 25X1

Trying to Pressure the US

China has tried to pressure the United States into greater 25X1 flexibility by threatening to cut off purchases of textile fibers and other US goods; the threat followed Washington's imposition of unilateral controls on textile trade after the unsuccessful fourth round of negotiations. To date, this tactic has had little effect on trade, because purchases in most of the categories had already fallen off for economic reasons -- China's record cotton crops and synthetic fiber stockpiles, for example. The unilateral controls, however, are already beginning to constrain China's exports, probably adding to the concerns of

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* China currently exports 350,000 barrels of oil per day.

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the Chinese. Two categories which together represent 6 percent of 1982 sales to the United States (measured in square yard equivalent) -- wool slacks for women and girls and cotton sweaters -- have already been embargoed. [redacted]

[redacted]

Offering personal observations to US Embassy officers, Li expressed consternation that the threats to stop grain purchases have not evoked more response in the United States. The Chinese had, however, already ceased purchases for the current crop year. Although reduced purchases in the grain markets are possible in the long run, Canada and other potential suppliers are also experiencing textile trade discord with China and are expected to be less flexible in their negotiations than the United States has been. [redacted] 25X1 25X1

Prospects

We believe the Chinese are not yet prepared to make major concessions to gain a textile agreement in the absence of major movement on the part of the United States. Li indicated the Chinese will accept 3 to 4 percent in overall growth and we believe they may accept as little as 2 to 3 percent. [redacted] 25X1
[redacted] China might consider 25X1
accepting cutbacks in sensitive categories if sizable gains are permitted in other categories. Nevertheless, we expect them to hold out until the United States offers concessions on coverage and base levels. [redacted] 25X1

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